



# Public Service Commission of Wisconsin

Cheryl L. Parrino, Chairman  
Daniel J. Eastman, Commissioner  
Joseph P. Mettner, Commissioner

610 North Whitney Way  
P.O. Box 7854  
Madison, WI 53707-7854

Ms. Magalie Roman-Salas  
Secretary to the Commission  
Federal Communications Commission  
1919 M Street, NW  
Washington, DC 20554

Re: In the Matter of  
Federal State Joint Board on Universal Service

CC Docket No. 96-45

Forward-Looking Mechanism For High Cost  
Support

CC Docket No. 97-160


Dear Ms. Roman-Salas:

This letter is to inform you of the Public Service Commission of Wisconsin's decision not to select a state-specific cost model at this time. Attached is our Commission order reflecting this decision.

If you have questions on this matter, please contact Gary A. Evenson, Assistant Administrator, Telecommunications Division, at (608) 266-6744.

Dated at Madison, Wisconsin, April 24, 1998

By the Commission:

  
Lynda L. Dorr  
Secretary to the Commission

LLD:GAE:AWW:slj:t:\Federal\FCC\Comments\Cost Model Not Adopted

Enclosure

cc: Service List of 05-TI-160  
Examining Division, Public Service Commission of Wisconsin  
Records Management/Master File 05-TI-160  
International Transcript Service

BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN

Investigation of Cost Study Methodologies for Determining  
Universal Service Subsidies for Non-Rural Local Exchange Carriers

05-TI-160

**FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER**

**Proceedings**

On October 14, 1997, the Commission issued a *Notice of Investigation, Prehearing Conference, Assessment of Costs, and Request for Cost Models and Comments*. Prehearing conferences were held on November 19, 1997, and January 8, 1998. The hearing was held on March 16, 17 and 18, 1998. Pursuant to the Notice of Hearing, the hearing was conducted as if it were a Class 1 proceeding as defined in § 227.01, Stats.

Post-hearing briefs were filed by the parties. ATT filed a Motion to Strike GTE's post-hearing brief in its entirety, or in part, based on GTE's inclusion in its brief of testimony from a hearing held before the Pennsylvania Public Service Commission. GTE responded to the Motion, arguing that the complained-of testimony was not really "evidence" improperly offered for the first time in its post-hearing brief, but was, instead, "authority" in support of an argument in its brief. The Commission disagrees. The material was included to establish the truth of facts asserted: that ATT's witnesses testified in a particular Pennsylvania proceeding, and that they testified as alleged. The material was not a decision or any other form of legal "authority." It was potential evidence, which could have been, but was not offered during the hearing in this docket. It was, instead, offered after the close of the hearing and in the absence of any order permitting GTE to submit it after the hearing. Accordingly, the Commission has granted ATT's Motion in part, striking those parts of GTE's post-hearing brief that include, or are based upon, the improperly submitted testimony, and those portions of GTE's brief have not been considered in deciding the issues in this docket.

The draft order was mailed to the parties on April 14, 1998, with notice that they could submit written comments regarding the draft order, not exceeding 20 pages in length, and that any such comments must be filed with the Commission by noon on April 20, 1998.

MCI submitted comments, which included a suggested substitute, order and exceeded 20 pages. MCI also filed a Motion to Extend Page Limit. The Commission did not grant this Motion and, accordingly, the suggested substitute order was not considered by the Commission.

## Background

The Telecommunications Act of 1996 (the Act) requires a substantial redesign of federal universal service programs, including the manner in which they are funded. Universal service programs have traditionally been used to ensure affordable rates by reimbursing telecommunications companies for the extra cost of providing essential services to consumers (residential and business) in areas the companies could not otherwise serve economically. This has been intended to keep rates at reasonable levels. The acronym "USF" (Universal Service Fund) is frequently used in referring to the programs and related issues surrounding universal service in both federal (interstate) and state (intrastate) jurisdictions.

As part of its redesign of federal USF, the Federal Communications Commission (FCC) is in the process of replacing implicit universal service subsidies for rural and high-cost areas with a program tying universal service support to the difference between the cost of providing service and the expected revenues. The cost of providing service is to be determined using a forward-looking economic cost model.

The FCC's May 8, 1997, order *In the Matter of the Federal-State Joint Board on Universal Service* specified that the FCC would work to develop such a model, and that states could either develop their own model or use the FCC model. More specifically, the FCC has stated that if a state does not adopt its own model, the FCC model will be used to compute universal service support for such a state (once payments begin, which is scheduled for January 1, 1999, for non-rural telephone companies). If a state wanted to develop its own model, the state was required to so inform the FCC in August 1997. This Commission so informed the FCC in August 1997.

A state developing its own model was also required to submit copies of that model to the FCC by February 8, 1998, a date prior to any projected date on which the FCC's model would be available for comparison. The FCC later extended the February 8, 1998 deadline to April 24, 1998. The National Association of Regulatory Utility Commissioners (NARUC), this Commission, and those of a number of other states requested a further extension of the April 24, 1998 deadline. On April 23, 1998, the FCC granted a further extension, to May 26, 1998. The FCC's model is still not completed and not available for consideration by the state commissions.

This Commission did not consider it to be prudent, or in the best interests of Wisconsin telecommunications consumers, to commit to using the FCC model "sight-unseen," and without examining alternative models which might be available for consideration. A large number of other states also took this position.

Accordingly, this Commission notified the FCC of its intent to develop its own model and has held an extensive hearing in this matter.

The FCC is continuing to work on its model, and currently expects to have the framework in place by August 1998. Again, this puts this Commission in the position of having to decide whether an available "state-specific" model is more or less likely to better serve the interests of Wisconsin providers and consumers than the FCC model, before information on the FCC model is available.

## FINDINGS OF FACT

### THE COMMISSION FINDS:

The FCC has chosen to use a cost model approach to universal service, as described in its May 8, 1997, order *In the Matter of the Federal-State Joint Board on Universal Service*. Under the FCC approach, a universal service support payment for a given customer would be equal to the difference between the costs, as developed by a cost model, and a benchmark level. The FCC will pay the interstate portion of this difference, which it has tentatively set at 25 percent. In its report to Congress of April 10, 1998, the FCC has committed to re-examining this interstate support level.

The benchmark level will be set by the FCC. The FCC will also choose a default cost model, but states have been given the opportunity to recommend a different model to be used for interstate purposes. The FCC has listed 10 criteria such models must meet, and reserves the final decision on whether to approve such models.

Under the FCC's plan, the model utilized is intended to represent the costs of an **efficient provider entering the market**. When the FCC adopts its model, it will have had additional months to resolve the remaining problems in the cost models now before it. This Commission considers it reasonable to expect that the FCC's model, once adopted, will be at least as accurate as the current versions of the BCPM and Hatfield models. Therefore, in order to justify recommendation of a model by this Commission, that model must be so clearly demonstrated to be capable of reliably producing accurate or plausible results as to render it prudent for this Commission to forego the probable increased accuracy of the FCC model and to accept the risk to its intrastate universal service program perceived by this Commission, as discussed below. This situation is created by the FCC's actions, in setting a deadline for states that requires the states to guess as to the features of the default model that the FCC has yet to adopt.

This Commission is not required to recommend a cost model to the FCC for interstate use. However, if this Commission does not recommend a model, the FCC default model will apply for **interstate** purposes.

This Commission has already created an **intrastate** program to protect universal service in high cost and rural areas: the High Rate Assistance Credit Program (§ PSC 160.09, Wis. Adm. Code). While that program is not currently based on a cost model, the Commission is not, in this

docket, precluding changes to that program as a possible result in other proceedings. The Commission is concerned, however, that if it were to recommend a model to the FCC for interstate universal service support at this time, Wisconsin might be compelled to use that model, and the FCC's cost model approach, to determine support in its intrastate universal service program. This concern is based on par. 251 of the FCC's May 8, 1997 order, which provides as follows:

251. In order for the Commission [FCC] to accept a state cost model submitted to us for the purpose of calculating federal universal service support, that study must be the same cost study that is used by the state to determine intrastate universal service support levels pursuant to [47 U.S.C. sec.] 254(e).

### AMERITECH'S MODEL

Ameritech Wisconsin (Ameritech) has presented its own model in this proceeding. Ameritech's primary argument in support of its model is that the model accurately reflects Ameritech's own engineering practices. These engineering practices include locating the serving area interface at the boundary and not the center of the serving area and determining aerial or buried construction based on the age of the neighborhood. FCC criterion 1 requires that a model should reflect the costs of a hypothetical, efficient provider. If Ameritech's practices result in higher costs than those of the hypothetical efficient provider, the results of Ameritech's model would overstate costs. Ameritech did not establish, in this docket, that its practices, and its costs, are those of an efficient provider.

In only one instance would a company-specific model **potentially** reflect costs more accurately than the default model, which will utilize nationwide data; this would occur only if the company's own engineering practices were specifically adapted to a **unique** feature of the serving area. However, Ameritech has made no showing in this Docket of such a unique feature in its serving area.

Other inputs in Ameritech's model that would require changes in order to meet the FCC's criteria include the cost of capital, (FCC criterion 4); depreciation rates, (FCC criterion 5); shared and common costs, (FCC criterion 7); and discounts on switching investments (FCC criterion 3).

FCC criterion 10 requires support calculations to be deaveraged to at least the wire center level and, if feasible, to even smaller areas, to efficiently target universal service support. Ameritech's model does not deaverage the costs for interexchange trunking to the wire center level as required by FCC criterion 10. In addition, Ameritech's model deaverages loop costs **only** to the wire center level, and Ameritech's confidential delayed exhibit shows that, at that level, the costs of providing service vary significantly between digital serving areas. This is at least potentially in conflict with FCC criteria 10.

In addition, the results of Ameritech's USF model are significantly different from prices determined for unbundled network elements (UNE) in the proceeding that addressed Ameritech's statement of generally available terms and conditions (SGAT). The FCC has urged states to use the same model for pricing UNE and determining universal service support.

Finally, this Commission considers that the fact that the Ameritech model will run only on Ameritech computers would make it unacceptable to the FCC according to FCC criterion 8.

## GTE's MODEL

GTE has also presented its own model in this proceeding. The Staff and other parties presented considerable evidence that the GTE North Incorporated (GTE) version of the BCPM model overstates, or otherwise inaccurately predicts, not only GTE's costs, but also those of the hypothetical, efficient provider, contrary to FCC criterion 1. Other inputs that would require correction include the cost of capital, (FCC criterion 4); depreciation lives, (FCC criterion 5); and loop length (FCC criterion 1). Although the GTE model presented in this Docket uses markedly higher operations and maintenance expense inputs than the BCPM default inputs, GTE did not demonstrate why such expenses would be so high. In the absence of such a showing, the requirement in FCC criterion 8 (that inputs must be reasonable) is not satisfied.

Staff's assessment that the level of deaveraging of interexchange trunking costs is insufficient indicates a potential conflict with FCC criterion 10. Moreover, when staff compared the output of the model to **actual investment** by wire center, staff discovered a number of exchanges where the actual results were significantly, even drastically, above the costs predicted by the model. GTE did not explain these differences. While historical costs are not the appropriate standard to judge forward-looking cost models, this pattern of discrepancies raises concerns whether GTE's model gives plausible results as required by FCC criterion 8.

In addition to the above, GTE presented testimony acknowledging that the model it would actually prefer, the ICM, is not yet ready. GTE wants the Commission to recommend the BCPM 3.5 model it presented in this Docket, **but only as a placeholder** until the ICM model is ready. The Commission considers that it would be imprudent for it to recommend, or for the FCC to approve, the model presented by GTE in this docket, even as a "place-holding model."

GTE has raised in this Docket, the issue of whether, and how, the Commission should revise its intrastate universal service model. That issue was not included in the list of issues to be addressed in this docket. It properly belongs in 1-AC-166, the Commission's biennial review of the universal service rules, currently underway. The Commission will not pre-judge the issue.

GTE's arguments regarding an interim surcharge, and its alleged need to rebalance rates, are also far beyond the scope of this docket and therefore will not be addressed at this time.

## **ULTIMATE FINDINGS OF FACT**

### **THE COMMISSION FINDS:**

1. While states can choose to recommend a model to the FCC, the states are not obligated to do so.
2. The FCC's enumerated criteria should not be the limit of this Commission's inquiry. In the interest of Wisconsin consumers and the developing competitive market, this Commission, in deciding whether to recommend a model to the FCC, has considered whether either of the proposed models, with the limitations demonstrated, is likely to be more accurate in estimating the costs of a hypothetical efficient provider than the FCC's default model, which is still being prepared. The Commission has also considered the possibility that if a state recommends a cost model to the FCC, there will be some risk of being compelled, at some point, to use that model, and the FCC approach, to fund intrastate universal service.
3. Ameritech's model does not fully meet the criteria enumerated in the FCC's May 8, 1997 order.
4. GTE's model does not fully meet the criteria enumerated in the FCC's May 8, 1997 order.
5. The Commission is not persuaded that it should recommend to the FCC either of the models presented.
6. This is a Type III action under PSC 4.10(3), Wis. Adm. Code. No unusual circumstances suggesting the likelihood of significant environmental consequences have come to the Commission's attention. Neither an environmental impact statement under § 1.11, Stats., nor an environmental assessment is required.

## **CONCLUSIONS OF LAW**

### **THE COMMISSION CONCLUDES:**

1. That it has jurisdiction, under §§ 196.02, 196.06, 196.09, 196.26, 196.12, 196.196, 196.218, 196.40, and 196.499, Stats., and other provisions of chs. 196 and 227, Stats., as may be pertinent hereto, together with § 254 of the federal Telecommunications Act of 1996, and other provisions of such Act as may be pertinent hereto, and the FCC's May 8, 1997, order *In the Matter of the Federal-State Joint Board on Universal Service*, to issue an order recommending, or declining to recommend, a cost model for adoption by the FCC for purposes of interstate universal service support.

2. That the Commission has broad discretion to decide whether or not to recommend to the FCC a model presented in this proceeding.

3. That the models presented in this proceeding do not fully meet the criteria specified by the FCC in its May 8, 1997 order.

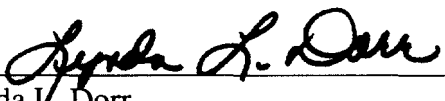
### ORDER

#### THE COMMISSION ORDERS:

1. This order is effective on issuance.
2. The Commission does not recommend to the FCC either cost model presented in this Docket.
3. ATT's Motion to Strike is granted in part; those parts of GTE's post-hearing brief that include, or are based upon, improperly submitted testimony from a Pennsylvania proceeding, are stricken.
4. MCI's Motion to Extend Page Limit is denied and, accordingly, the suggested substitute order was not considered by the Commission.

Dated at Madison, Wisconsin, April 24, 1998

By the Commission:

  
Lynda L. Dorr  
Secretary to the Commission

LLD:PRJ:slj:g:\order\pending\05-TI-160 final order

See attached Notice of Appeal Rights.

Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in s. 227.53, Stats. The petition must be filed within 30 days after the date of mailing of this decision. That date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

Notice is further given that, if the foregoing decision is an order following a proceeding which is a contested case as defined in s. 227.01(3), Stats., a person aggrieved by the order has the further right to file one petition for rehearing as provided in s. 227.49, Stats. The petition must be filed within 20 days of the date of mailing of this decision.

If this decision is an order after rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not an option.

This general notice is for the purpose of ensuring compliance with s. 227.48(2), Stats., and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

Revised 4/22/91